

SUBCOMMITTEE NO. 2

Agenda

Sheila Kuehl, Chair
Bob Dutton
Alan Lowenthal



Monday, April 18, 2005
Upon Adjournment of Environmental Quality
Room 112

<u>Item</u>	<u>Department</u>	<u>Page</u>
3540	Department of Forestry and Fire Protection.....	2
3790	Department of Parks and Recreation.....	14
0540	Secretary for Resources.....	21
3360	California Energy Commission.....	24
3860	Department of Water Resources	27
	California Energy Resources Scheduling Division.....	27
8660	Public Utilities Commission.....	28
8665	California Consumer Power and Conservation Financing Authority	33
8770	Electricity Oversight Board.....	35

Resources—Environmental Protection—Energy

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

3540 Department of Forestry and Fire Protection

Background. The California Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. In addition, CDF (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

Governor's Budget. The Governor's budget proposes \$877 million to support CDF in the budget year. This is approximately \$6.5 million more than is estimated for expenditure in 2004-05, primarily due to proposed budget augmentations to the department's fire suppression activities. The General Fund support for this program is \$531 million, which is a \$16.5 million increase over the current year, again, primarily due to fire suppression augmentations.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Type of Expenditure				
Office of the State Fire Marshal	\$13,271	\$13,793	\$522	3.9
Fire Protection	712,755	748,543	35,788	5.0
Resource Management	49,680	47,555	-2,125	-4.3
Capital Outlay	96,260	73,808	-22,452	-23.3
Administration	58,095	59,060	965	1.7
<i>less distributed administration</i>	<i>-57,665</i>	<i>-58,630</i>	<i>-965</i>	<i>0.0</i>
Unallocated Reduction	-1,401	-6,696	-5,295	0.0
Total	\$870,995	\$877,433	\$6,438	0.7
Funding Source				
General Fund	\$513,865	\$530,639	\$16,774	3.3
Special Funds	8,780	8,683	-97	-1.1
Bond Funds	9,379	9,296	-83	-0.9
<i>Budget Act Total</i>	<i>532,024</i>	<i>548,618</i>	<i>16,594</i>	<i>3.1</i>
Federal Trust Fund	34,739	31,309	-3,430	-9.9
Forest Resources Improvement Fund	853	4,625	3,772	442.2
Bosco-Keene Renewable Resources Investment Fund	3,757	0	-3,757	-100.0
Timber Tax Fund	30	30	0	0.0
Public Building Construction Fund	90,370	68,004	-22,366	-24.7
Reimbursements	209,223	224,847	15,624	7.5
Total	\$870,996	\$877,433	\$6,437	0.7

1. Funding for Fire Protection Equipment and Services

Background. The Governor's Blue Ribbon Fire Commission, established in November 2003, developed recommendations on ways to achieve a fire safe environment in the wildland-urban interface in California following the severe 2003 fires in Southern California. The commission recommended that CDF improve its capability to communicate with other jurisdictions by updating its radio equipment. The commission's report also found that CDF should begin to examine alternatives for replacement of its relatively old "Huey" helicopters. These military surplus helicopters are nearing the end of their useful life and it is not clear that additional military surplus equipment will be available to replace this equipment.

Governor's Budget. The budget proposal includes \$15.2 million in General Fund monies to fund fire protection equipment purchases and to improve service contracts used in fire protection efforts. The budget proposals include:

- **Obsolete Fire Apparatus and Helicopter Replacement.** The budget proposes \$10.8 million to replace fire engines and eleven firefighting helicopters. This augmentation is proposed as an ongoing augmentation to the \$6.8 million baseline funding for fleet replacement. The augmentation would increase the fleet replacement budget by over 150 percent.
- **Air Services and Logistical Support Contracts.** The budget proposes \$1.5 million in ongoing funding to cover cost increases in CDF's aircraft services and logistical support contracts. Costs associated with these contracts have increased due to higher labor rates.
- **Communication Equipment Upgrades.** The budget proposes \$2.4 million to replace radio equipment with narrowband capable equipment. (Narrowband equipment is the new generation of portable radio services that allows for two-way paging, wireless e-mail and other services.) This proposal would augment the department's budget for five years to cover the entire costs (\$12.1 million) of replacing the existing radio infrastructure. The budget also proposes \$500,000 in one-time funding to replace all CDF radio cache equipment with narrowband capable equipment.

Fleet Replacement Proposal Needs More Justification. As mentioned above, the administration is proposing to permanently augment its fleet replacement budget by over 150 percent. In addition, the department is planning to purchase helicopters to replace its aging military surplus fleet, which would be a new activity for the department. The department indicates that it will finance some portion of its equipment purchases.

The department has indicated that it plans to purchase 44 new fire engines with the \$10.8 million in the budget year. While this information is helpful, it does not provide a context for how this activity will fit into the department's plans for modernizing its fire equipment over time. For example, how will the \$10.8 million augmentation help the department "catch up" in its schedule for replacing obsolete vehicles? When will the department be caught up? When will the department start purchasing new helicopters and how will they be financed? This sort of information is important when approving a baseline budget increase of this magnitude.

LAO Recommendations. The LAO has recommended that CDF resubmit its budget proposal for fire apparatus at the May Revision. The Analyst indicates that the new proposal should include additional information on the department's overall plans for fleet replacement, including how this level of funding will affect the department's ability to "catch up" in its schedule for replacing obsolete vehicles and at what point it estimates helicopter financing will commence.

The LAO also recommends adopting budget bill language that would prohibit helicopter purchases in the budget year and would require the department to conduct a study on its helicopter requirements and options for financing those requirements. The department has indicated that it will need to start replacing its helicopters within the next five years.

Staff Comments. The department has provided evidence that its fire equipment is badly in need of upgrades. However, as is the case with any significant ongoing budget augmentation, the department needs to justify how this increase will help the department to “catch up” in its schedule for replacing obsolete vehicles and address the replacement needs of its aging helicopters. Without this information, it is difficult for staff or the department to determine the correct size of the fleet modernization program over time.

Staff Recommendation. Staff recommends that the Subcommittee do the following:

- Adopt the budget proposals to increase funding for fire protection equipment and services except for the \$10.8 million proposed for fleet modernization.
- Direct the department to provide a more detailed justification for a 150 percent permanent increase to the department’s fleet modernization budget.
- Adopt budget bill language to require CDF to conduct a study on the department’s helicopter requirements and options for financing those requirements.

2. Augmentation to Off-Season Fire Protection for Southern California

Background. The CDF provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. These areas of CDF responsibility are referred to as “state responsibility areas” (SRA). The state is not generally responsible for protecting structures, which is typically the responsibility of local fire jurisdictions. However, the growing wildland urban interface has meant that the state ends up protecting more structures in an effort to prevent fires from spreading to SRA lands. This has resulted in increased costs to the state.

Governor’s Budget. The Governor’s budget proposes \$9 million in ongoing General Fund monies to fund fully-staffed fire protection in five Southern California counties. Approximately \$5.7 million is proposed to support 49 new positions to fully staff the 36 fire stations in Riverside, San Bernardino, and San Diego counties year-round. About \$3.3 million will be provided to Los Angeles and Orange counties to reimburse these counties for providing fully-staffed fire protection service year-round to SRA lands within these counties. This level of funding will support three firefighters per engine year round in the five Southern California counties identified.

Current Off-Season Fire Protection in Southern California. Historically, the state has funded fire stations so that they are fully staffed in Southern California from about April 15 to December 15, which is considered the normal fire season. However, if there is a need, the department extends the length of time it provides full staffing beyond the normal fire season. The department funds this augmentation in staffing for the off-season by Executive Order from the Governor (accompanied by a General Fund augmentation) or by redirecting existing resources within its budget.

The department operates about 36 state-funded fire stations in Riverside, San Bernardino, and San Diego Counties. Local governments in some of these counties already contract with the state

to provide fully-staffed fire protection year-round. These contracts are referred to as “Amador Agreements” and CDF currently has nine of these agreements that provide \$800,000 in reimbursements to the state in the current year.

Los Angeles and Orange counties provide fire protection services on behalf of CDF in SRA lands. The CDF reimburses these counties, which are referred to as “contract counties.”

Off-Season Funding Augmentation Not Justified. The department has provided only minimal data to justify this request. The LAO has recommended deleting the funding to provide year-round staffing for Southern California because the proposal is not justified.

While there may be merit to the budget request, this sort of baseline augmentation to the department’s budget should be justified by an analysis which justifies the need to have the same level of services year-round. For example, data could show an increase in the number and/or intensity of wildland fires during the off-season. Furthermore, the proposal does not provide sufficient information on how the requested funds will be used by contract counties to provide additional services to benefit the state or how they will impact revenues currently being collected from Amador agreements with some local governments.

The department has indicated that this increased level of staffing during the off-season will allow CDF to increase its fuel reduction activities, including the enforcement of 2003 legislation (SB 1369, Kuehl) that expands the defensible space requirement around homes to 100 feet. However, the department has not provided information on how these activities would be enhanced under this augmentation.

Staff Recommendation. Staff recommends that the Subcommittee direct the department to provide the following information:

- An analysis that justifies the augmentation to off-season fire protection resources in the five Southern California counties.
- Information on how contract counties will use increased funds to provide additional services to benefit the state and how the Amador agreements will be impacted by this proposal.
- Analysis on how fuel reduction activities will be enhanced by augmenting off-season fire protection resources.

3. Legislative Oversight of CDF’s Budget

Background. It is current standard administrative practice for the Department of Finance (DOF) to approve the expenditure of unanticipated federal funds during the course of the budget year. This process is referred to as the Section 28.00 process. Unanticipated federal funds exceeding \$200,000 require notification to the Legislature 30 days prior to approval by DOF.

When a department has several different programs within its jurisdiction, it is common practice to schedule budgetary expenditures among its programs in the budget bill. In most cases, these schedules are parallel to how expenditures are presented in the Governor’s budget document. If a department wants to move appropriation authority among the programs scheduled in the budget

bill, it is required to submit a Section 26.00 notification to DOF. If the transfer is in excess of \$200,000, notification to the Legislature is required 30 days prior to approval of the transfer by DOF.

Governor's Budget. Currently, CDF is generally exempt from the Section 28.00 process, which reduces the Legislature's oversight over how CDF is expending its resources.

In addition, CDF does not schedule budgetary expenditures in the budget bill in a manner that is similar to the way in which expenditures are presented in the Governor's budget. This lack of scheduling enables the department to transfer funds among program areas without legislative notification.

Legislative Oversight Reduced by Exemption from Section 28.00 Process. The department has been exempt from the Section 28.00 process since the 2002-03 budget. The department indicates that the number of reimbursements received from the federal government during a given year make it cumbersome to go through the Section 28.00 process for each reimbursement payment from the federal government. However, it is not clear that all of these reimbursement payments are actually *unanticipated*. Only unanticipated federal funds are subject to the Section 28.00 process.

The LAO has found that exemption from the Section 28.00 process has resulted in the department expending federal funds that have not been appropriated by the Legislature. For example, the LAO's review found that in 2003-04, the department used about \$39 million in unanticipated federal funds to, in effect, augment programs in various areas of the department's budget. This type of diversion of funds circumvents the Legislature's appropriation authority.

Lack of Scheduling in Budget Act Reduces Legislative Oversight. As mentioned previously, the department's support budget is not scheduled among its four program areas in the budget act. This further impairs legislative oversight because it enables the department to move funding around without notification of the Legislature through the Section 26.00 process. For example, the department's resource management activities could be reduced to augment its fire suppression activities in any given year or vice versa.

LAO Recommendations. The LAO recommends the following actions to improve legislative oversight of cost recoveries from federal agencies:

- **Require Legislative Notification for All Unanticipated Federal Funds.** The LAO finds that this can be done by removing budget bill language that currently exempts CDF from the Section 28.00 process.
- **Recommend Scheduling of Budget Bill Appropriations.** The LAO recommends that, within the department's overall budget bill appropriation item, the Legislature schedule individual amounts by program area.

Staff Comments. The department has indicated that it would not be "in the interest of government efficiency" to require the department to adhere to the normal Section 28.00 process. However, staff finds that it is important for the Legislature to be notified of unanticipated federal funds that are received by the department. The department is currently required to submit

quarterly updates of the General Fund being expended on emergency fire suppression. Without notification of federal reimbursements, the Legislature cannot determine the actual cost to the state of the department's fire suppression activities.

Furthermore, the department manages other important programs that do not involve fire suppression. It is important that the Legislature be notified if funds are being shifted among different program activities at the department.

Staff Recommendation. Staff recommends that the Subcommittee direct staff, the LAO, DOF, and the department to work together on budget bill amendments and reporting requirements that will allow the Legislature to receive notification of unanticipated federal funds and provide a schedule of appropriations by program area.

4. Funding for Forest Resources Assessment and Enhancement Programs

Background. Revenues generated from timber harvesting in state-owned forests are deposited into the Forest Resources Improvement Fund (FRIF). Most of this revenue has historically been generated from timber harvesting on the Jackson State Demonstration Forest. These funds have historically been the sole ongoing funding source for forest resource assessment and enhancement programs such as forest pest research and management, forest and rangeland assessment activities, nurseries, management of the state's forests and urban forestry programs. However, since timber harvesting in Jackson State forest has been the subject of ongoing litigation, there has been little revenue to fund activities that enhance the state's forest resources and support forest regulatory programs.

In the current year, forest resource assessment and enhancement programs are being funded by \$3.5 million in one-time monies from the Renewable Resources Investment Fund. This was a significant reduction in funding for activities that enhance forest resources. Funding for these activities was approximately \$12 million prior to the lawsuit that eliminated timber harvesting at the Jackson State forest.

Governor's Budget. The Governor's budget estimates that \$7 million in revenue will be generated from the sale of forest products harvested on state forest land in the budget year. The budget proposes to expend \$4.6 million of these revenues on forest resources enhancement programs. This proposal assumes some resolution of the current moratorium on timber harvesting in the Jackson State forest.

Jackson State Forest Issues Still Unresolved. The Governor vetoed legislation (SB 902, Chesbro) in 2004 that would have provided relief to the moratorium on timber harvesting at Jackson State forest. The department has indicated that it is continuing to work on a court-ordered Environmental Impact Report (EIR) required by the court overseeing the lawsuit in order for timber to be harvested on Jackson State forest in the budget year. The department has indicated that it will release a draft of the EIR for public comment in May of this year. If this

draft EIR does not satisfy the court or the plaintiff, timber harvesting on Jackson State forest will very likely be further delayed.

FRIF Revenues Uncertain. There continues to be great uncertainty related to whether the department will ultimately produce an EIR that satisfies the court and the plaintiff. Therefore, it is uncertain whether the FRIF revenues assumed in the department's budget can be relied upon. As mentioned above, the Governor vetoed legislation that would have assured some level of timber harvesting on the Jackson State forest in the budget year.

Funding for Forestry Programs Should Be More Diversified. While FRIF funds are an appropriate funding source for state forest assessment and enhancement activities, the state's funding needs for these activities are not directly related to the amount of forest harvesting that occurs on state forest lands. Therefore, the level of funding for these programs should not necessarily be linked to the amount of FRIF revenues available in any given year. In order to provide a more stable funding stream for these programs, other funding sources should be considered. Appropriate funding sources include the General Fund, Environmental License Plate Fund revenues, and timber harvest plan fee revenues. Timber harvest plan fee revenues are an appropriate funding source for activities related to forest resource assessments, since the department utilizes this information to review the various impacts of timber harvest plans on the environment.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open until the department has released its draft EIR for public comment and direct staff, the LAO, DOF, and the department to work on more certain options for funding forest resource assessment and enhancement programs. Options to be considered should include:

- Enacting trailer bill language similar to the legislation contained in SB 902 that would guarantee FRIF revenues in the budget year.
- Redirection of General Fund from other department activities such as administration to fund forest resource assessment and enhancement activities.
- General Fund augmentation.

5. Capital Outlay

Governor's Budget. The budget proposes to expend \$47 million for capital outlay projects to improve CDF facilities in 2005-06. Approximately \$42 million is proposed to be funded by lease revenue bonds and the remaining \$5 million is supported by the General Fund. The proposed projects are as follows:

- **Replace Various Forest Fire Stations.** The budget proposes \$30.4 million from lease revenue bonds to fund the development of preliminary plans, working drawings and to construct new facilities at the following locations: Boonville, Bridgeville, Cloverdale, Colfax, Nevada City, and Weott. Most of these facilities were built in the 1950s, have fallen into disrepair and have inadequate facilities.
- **Construct a New Ukiah Air Attack Base.** The budget proposes approximately \$10 million from lease revenue bonds to acquire additional land, develop preliminary plans and working drawings and for construction. The current facilities are 45 years old and are not large enough to serve larger aircraft.

- **Statewide Communications Facilities.** The budget proposes \$2.7 million from the General Fund to support preliminary plans and working drawings to replace nine communication facilities statewide. This is the third phase of communications towers to be replaced as part of the Tower and Vault Master Plan that was adopted to convert all telecommunications sites to digital technology.
- **Upgrade Water and Wastewater System at Conservation Camps.** The budget proposes \$2.1 million from the General Fund to upgrade water and wastewater systems at five conservation camps to comply with current water quality regulations. These facilities house inmate hand crews that are utilized by CDF for fire suppression and other non-fire emergencies. The facilities to be upgraded include: Bautista (Riverside County), Eel River (Humboldt County), Rainbow (on the border of San Diego and Riverside Counties), Trinity River (Trinity County), and Washington Ridge (Nevada County).
- **Auto Shop Replacement at Santa Clara Unit Headquarters.** The budget proposes \$1 million from lease revenue bonds to augment funds appropriated in prior budget years for working drawings and construction of a new auto shop. The auto shop being replaced is 45 years old, is not big enough and does not provide an environmentally safe working area.
- **Relocate Sweetwater Fire Station.** The budget proposes \$393,000 from lease revenue bonds to augment funds appropriated in prior budget years for construction of a new fire station. This cost increase is due to new cost-per-square-foot standards developed by the Department of General Services. The Sweetwater fire station serves the San Antone valley west of San Jose and east of Interstate 5.
- **Replace Water Supply System at Bear Valley Fire Station.** The budget proposes \$294,000 from the General Fund for preliminary plans and working drawings to replace the water supply system. The current system provides a restricted water supply that is of marginal quality. The department has not yet completed its evaluation of how best to replace the current water supply system.
- **Relocate Hollister Air Attack Base.** The budget proposes \$269,000 from the General Fund for preliminary plans to construct a new air attack base. The Hollister facility is the primary fire control facility in the central coast area and is located at the Hollister airport. The current facility is not large enough to handle the air traffic required during a fire fight and many of the facilities do not comply with FAA requirements.

Bear Valley Plans Not Ready. The LAO has found that the \$294,000 General Fund proposed to begin preliminary plans and working drawings to replace the water system at the Bear Valley Forest Fire Station is premature. The department has not yet defined the scope or costs of the project. The department has a study underway that is anticipated to be completed this spring. The LAO recommends withholding action on this item until the department defines the scope and costs of the project.

Staff Recommendation. Staff recommends that the Subcommittee adopt the capital outlay proposals except for the \$294,000 General Fund proposed for the Bear Valley project. The Bear Valley project should remain open until the department has submitted its scope and costs for the project.

6. Fuels Management Activities

Background. Five years of severe drought have left Southern California forests vulnerable to bark beetle infestation. Approximately 130,000 acres on non-federal land in Southern California have already been impacted by bark beetle infestations. In some areas, 100 percent of the existing conifer species have died and mortality is increasing in all other areas. This has created a severe fire hazard and is devastating to forest ecosystems and watersheds in this area of the state.

Fuels management activities create a related problem of how to deal with the biomass created. Prescribed burning does not have this problem, but is not a practical option in some of these areas given the extremely arid conditions and issues related to air quality.

Governor's Budget. The budget proposal includes funding for the following fuels management activities:

- **Fuels Management in Southern California.** The budget proposal includes \$14.4 million in federal funds for a three year program to treat forest fuels in Southern California. Of this funding, \$6.9 million was allocated in the current year (through a Section 28.00 letter), \$3.8 million is proposed to be expended in the budget year, and \$3.7 million is proposed to be expended in 2006-07. Approximately \$1.9 million annually is proposed to fund 20 limited-term positions to support the fuels management programs over the three year period. Matching funds required by the federal government are being provided by in-kind contributions of tree removal by Southern California Edison.
- **Improved Utilization of Biomass.** The budget includes \$1.4 million in federal funds for a three year program to improve utilization of biomass waste created by forest fuels management activities. Of this funding, \$840,000 is proposed to be expended in the budget year and \$270,000 is proposed to be expended in both 2006-07 and 2007-08. These funds are proposed to fund contracts to improve biomass utilization in the state, including studies to assess fuel loads and the economic potential of the biomass waste stream. A cooperative co-generation project is also being proposed along with a media campaign to encourage utilization of biomass. This effort will be coordinated with the various other state agencies involved in this activity, including the Integrated Waste Management Board and the California Energy Commission.

More Details Needed on Fuels Management Proposal. The administration has provided general information on how these funds will be used, but has provided relatively little information to justify the number of positions requested. For example, the department indicates that it will take an active role in providing technical assistance to landowners in removing dead and diseased trees and in directing the disposal of the biomass materials. They also plan to support a significant replanting and reforestation effort that includes producing one million trees annually for planting. However, the proposal does not provide a breakdown of how these funds and positions will be used to support these activities.

Fuels Management in the Sierra Nevada Update. The Legislature approved \$39 million in Proposition 40 bond funds, in the current year, for fuel reduction activities over the next several years in the Sierra Nevada. The department indicates that it is proceeding with allocating \$3.2 million in grants to local fire safe councils to start these activities. The department is also continuing to work with the Department of Fish and Game on its programmatic timber EIR that

will allow the department to do fuel reduction work over the next few years under one environmental permit. The department has also indicated that it is working with the California Conservation Corps to provide assistance in its fuel reduction work in the Lake Tahoe area.

Staff Recommendation. Staff recommends withholding action on the Southern California fuels management proposal until more details have been provided on how funds will be spent to support this proposal, including information to justify the proposed staffing level.

7. Other Budget Change Proposals

Governor's Budget. The Governor's budget includes the following budget change proposals:

- **Unemployment Insurance.** The budget proposes \$4.1 million ongoing General Fund support to fund increased costs associated with unemployment insurance. This represents nearly a 100 percent increase in funding for unemployment insurance. The increase is required due to recently enacted legislation that increased the amount paid out for unemployment insurance and offers unemployment benefits to students who quit work in order to return to school. Many of CDF's seasonal firefighters are students.
- **Computer Aided Dispatch (CAD) System.** The budget proposes \$840,000 from the State Emergency Telephone Number Account to continue the implementation of a new CAD system that has greater capacity. This system is used by CDF to link to 911 operators so that they may receive information regarding the location of emergencies quickly and efficiently. This project upgrade was started in 1999 and is nearing completion. An additional \$881,000 payment is projected for 2006-07, after which some level of funding will be needed for ongoing maintenance of the system starting in 2007-08.
- **Pipeline Safety.** The budget proposes \$489,000 from the Hazardous Liquid Pipeline Safety Fund for support of 5 new positions for the Pipeline Safety Division of the State Fire Marshal. This division exercises safety, regulatory, and enforcement authority over intrastate and interstate hazardous liquid transportation pipelines. The division acts as an agent for the U.S. Department of Transportation in regulating these pipelines and additional positions are needed to implement new federal program criteria.

Staff Recommendation. No issues have been raised with these proposals and staff recommends that the Subcommittee approve the budget proposals.

8. Disabled Contractors

Background. Existing law provides that state agencies have a goal of assigning 3% of contracted services to certified disabled veteran businesses. Staff is concerned that CDF is not meeting this state goal. The department has acknowledged past lapses in meeting this goal, but believes it has made significant progress with this objective. On the other hand, all parties acknowledge that the goal is just that, and is not as strong as a binding requirement for a certain percentage of contracts to go to qualified disabled contractors. For example, certified small businesses are entitled to a 5% competitive advantage with certain bids to state agencies. Disabled contractors are not covered by this provision nor are they guaranteed a contract even

when their price is the same as that of a non-disabled contractor. Similarly, state agencies, including CDF, do not set aside a specific portion of their contracting budgets for certified disabled contractors.

Staff Recommendation. The Subcommittee may wish to direct staff to get more information on this, consult with CDF and disabled contractors, and develop recommendations to bring back for a future hearing.

3790 Department of Parks and Recreation

Background. The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state. The state park system encompasses 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

Governor's Budget. The Governor's budget proposes \$430 million for DPR in 2005-06, which is a 60 percent reduction from expenditure levels in the current year. This decrease is due to a reduction in the bond funds available for park projects in the budget year. General Fund support for DPR is proposed to increase by 16 percent in the budget year due to additional funding to implement the American's with Disabilities Act transition plan and employee compensation increases.

Summary of Expenditures (dollars in thousands)		2004-05	2005-06	\$ Change	% Change
Type of Expenditure					
Support of the Department of Parks and Recreation		\$299,803	\$337,503	\$37,700	12.6
Local Assistance Grants		461,166	44,087	-417,079	-90.4
Capital Outlay		305,063	49,643	-255,420	-83.7
Unallocated Reduction		0	-1,567	-1,567	0.0
Total		\$1,066,032	\$429,666	-\$636,366	-59.7
Funding Source					
General Fund		\$86,768	\$100,976	\$14,208	16.4
Special Funds		255,426	208,309	-47,117	-18.4
Bond Funds		612,948	52,805	-560,143	-91.4
Budget Act Total		955,142	362,090	-593,052	-62.1
Federal Trust Fund		70,952	29,052	-41,900	-59.1
Reimbursements		39,221	37,575	-1,646	-4.2
Harbors & Watercraft Revolving Fund		717	689	-28	-3.9
California Missions Foundation Fund		0	260	260	0.0
Total		\$1,066,032	\$429,666	-\$636,366	-59.7

1. American Disabilities Act Upgrades

Background. As a result of a lawsuit, DPR is required to spend \$110 million over 14 years (beginning in 2002-03) for modifications to existing state park facilities in order to make state parks more accessible to visitors with disabilities. These modifications include modifying restrooms, parking areas, picnic sites and trails, to allow for greater access.

Governor's Budget. The budget proposes about \$11.8 million for the continued implementation of the transition plan. Of this amount, \$11.2 million is from the General Fund and \$600,000 is from the Off-Highway Vehicle Fund.

LAO Recommendation. In order to find General Fund savings, the LAO has identified options for shifting support for the ADA projects to bond funds and federal funds. The Analyst indicates that \$3.4 million in unallocated Proposition 12 bond funds could be pieced together with \$5 million in federal funds, and \$2.8 million in Proposition 12 bond funds redirected from other projects.

Impact of Redirection. The redirection of these funds would result in less funding available for development and restoration work at existing park facilities. Funding for the department has been reduced significantly over the past several years. General Fund support for the department is at the lowest point since before 1999-00. While user fees have been increased to cover some of the General Fund reductions, the department continues to be funded at only 35 percent of its overall needs related to ongoing maintenance and development of its resources so that visitors from around the world can enjoy our park system.

Staff Recommendation. Staff recommends that the Subcommittee approve General Fund support of the ADA upgrades given the concerns raised by the department and ongoing concerns regarding systemic under-funding of the department.

2. Hearst Acquisition Staffing

Background. The state closed escrow on a conservation plan for the 82,000 acre Hearst Ranch earlier this year. This transaction included the transfer of most of the coastal properties to DPR and a conservation easement that will cover the remaining property. The property transferred to DPR includes 1,000 acres and 13 miles of coastal property (excluding 613 acres at San Simeon Point, Ragged Point, and Pico Cove). The transaction cost the state \$80 million in cash and \$15 million in tax credits.

Governor's Budget. The budget includes \$1.3 million from the General Fund and 7 new positions to support the initial phase of management and operation of the state-owned properties, as well as terms and conditions of the conservation easement related to San Simeon Point, Ragged Point, and Pico Cove.

Terms and Conditions of Conservation Easement. The department has indicated that it has various responsibilities under the terms and conditions of the conservation easement. These include the development and implementation of a public access plan, a coastal trail, and a resource management plan. Public access has been permitted on the property prior to the acquisition by DPR. However, the department is concerned that this uncontrolled public access is negatively impacting sensitive resources on the property. The initial level of staffing will allow the department to begin to operate and manage the property under the terms and conditions set out in the conservation easement.

What Other Needs Are Out There? Staff recognizes that the Hearst acquisition is a significant addition to the state park system, but there have been numerous other acquisitions over the past several years that did not receive specific augmentations in funding. Staff is concerned that there are other properties in the system that are also in need of initial staffing for start-up operations.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open pending receipt of additional information from the department regarding other recent park acquisitions and the staffing needs at other parks for start-up operations.

3. State Park Fees

Background. The department implemented an \$18 million increase in state park visitor fees in the current year to facilitate a \$15 million General Fund reduction. This increased the percentage of the department's operating costs that will be funded by visitor fees from 18 percent to 24 percent. The department implemented this fee increase based on "market" factors, including a consideration of other competing recreational opportunities (both public and private) in the vicinity of the park, visitor demand for the park, the time of year, and the particular service features at a park. This has resulted in a greater differential in fees among and within parks under the new schedule.

Governor's Budget. The budget proposes to increase state park fees by \$6 million to cover costs associated with upgrading outdated water and wastewater systems at various state park facilities. These upgrades are required to comply with state water quality and drinking water requirements.

Fee Program Supplemental Report. When the fee increase was approved in the current year, supplemental report language was adopted to require the department to provide information on the impacts of the administration's fee policy on visitation and whether revenues were consistent with projections. The department's report indicates that visitation was up in the fall of 2004 despite the fee increases and revenues are on track to reach projected revenue targets in the current year. The report outlined the following ranges for park fees:

- Developed Campsites. \$11 to \$25.
- Undeveloped (Primitive) Campsites. \$9 to \$15.
- Day Use. \$4 to \$14.

Staff Recommendation. Staff recommends the Subcommittee approve the fee increase given the state's current fiscal condition.

4. Concession Proposals

Background. Under current law, the Legislature is required to review and approve any proposed or amended concession contract that involves a total investment or annual gross sales over \$500,000. In past years, the Legislature has provided the required approval in the supplemental report of the budget act.

Governor's Budget. The budget proposal includes four concession proposals that require legislative approval. These proposals include:

- **Candlestick Point State Recreation Area.** Proposal to operate parking facility for up to 10 years with the state receiving 90 percent of the sales at a minimum capital investment of \$25,000.
- **Crystal Cove State Park - Lodging.** Proposal to operate lodging for up to 20 years with the state receiving \$30,000 or 2 percent of sales at a minimum capital investment of \$450,000 and 12 percent of sales to a facility improvement fund.
- **Crystal Cove State Park – Food Services.** Proposal to operate food services for up to 20 years with the state receiving \$90,000 or 10 to 12 percent of sales at a minimum capital investment of \$325,000.
- **Carnegie State Vehicular Area.** Proposal to operate a store for up to 20 years with the state receiving \$70,000 or 8 percent of annual gross sales at a minimum capital investment of \$350,000.
- **Angel Island State Park.** Proposal to operate a ferry service to Marin County for up to 20 years with the details to be determined.

LAO Recommendation. The LAO recommends that the Legislature withhold action on the proposal to provide ferry services between the mainland of Marin County and Angel Island State Park. They have found that the department has not yet completed the economic feasibility study that is used to determine the minimum revenue share to be paid to the state. The DPR anticipates the report will be completed this spring.

Staff Recommendation. Staff recommends that the Subcommittee approve all of the concession proposals except for the Angel Island State Park proposal. This proposal should be kept open pending additional information from the department.

5. Other Budget Proposals

Governor's Budget. The budget includes the following budget change proposals related to the department's support budget:

- **Stanford Mansion.** The budget includes \$1.8 million in reimbursement funding for the department to operate the newly restored Stanford mansion, including providing resource protection, public access, educational tours, and protocol events for the Governor and Legislature.
- **Staffing.** The budget proposes the conversion of 5.4 seasonal temporary positions to permanent positions to address current workload deficiencies at the State Capitol Museum and at the department's public safety dispatch centers.

The budget also proposes funds for the local assistance program from bond funds, special funds and federal funds for grants to various agencies. The details of the proposal are as follows:

Local Assistance Program

(Dollars in Thousands)

Fund Source	Recreational Grants	Local Projects	OHV Grants	Historic	Total
				Preservation Grants	
Proposition 12 Bond Funds	\$835	-	-	-	\$835
Habitat Conservation Fund	3,092	1,500	-	-	4,592
Off-Highway Vehicle Trust Fund	-	-	18,000	-	18,000
Recreational Trails Fund	5,000	-	1,200	-	6,200
Federal Trust Fund	13,000	-	-	1,200	14,200
California Missions Foundation Fund	-	-	-	260	260
Total	\$21,927	\$1,500	\$19,200	\$1,460	\$44,087

Staff Recommendation. No issues have been raised with these budget change proposals. Staff recommends the Subcommittee approve as budgeted.

6. Capital Outlay

Governor's Budget. The budget proposal includes \$39.3 million to fund various capital outlay development projects and acquisitions in the budget year. Approximately \$7.5 million is for statewide acquisitions, \$5.6 million is for off-highway vehicle acquisitions, and \$29.5 million is for capital outlay projects to develop and improve existing DPR facilities. The majority of the funding for these projects and acquisitions comes from Proposition 40 bond funds.

Development of Existing Park Facilities. The budget includes the following proposals to develop and improve existing park facilities:

- **Structural Improvements to Antelope Valley Indian Museum.** The budget proposes \$149,000 from Proposition 12 bond funds for preliminary plans and working drawings to make structural improvements to the museum building and to replace the heating and cooling system.
- **Water Improvements to Big Basin Redwoods SP.** The budget proposes \$236,000 from Proposition 40 bond funds for preliminary plans to improve the water treatment plant, the water storage tanks and the distribution system.
- **Development of Chino Hills SP.** The budget proposes \$12.4 million from Proposition 40 bond funds for construction and equipment required to develop a new entrance road and associated infrastructure to allow formal access to the park.
- **Drainage Improvements at Columbia SHP.** The budget proposes \$144,000 from Proposition 12 bond funds for preliminary plans to enlarge selected culverts to improve drainage and alleviate flooding problems at the park.

- **Rehabilitate Malibu Creek SP Facilities.** The budget proposes \$3.8 million from Proposition 40 bond funds for working drawings, construction and equipment to rehabilitate day use facilities at the Tapia area of the park.
- **Rehabilitate Millerton Lake SRA Facilities.** The budget proposes \$200,000 from Proposition 12 bond funds for preliminary plans to rehabilitate and expand day use facilities at the La Playa day use area at the state recreation area.
- **Preservation at Plumas-Eureka SP.** The budget proposes \$205,000 from Proposition 40 bond funds for preliminary plans to provide for long-term stabilization and preservation of the historic stamp mill at the park.
- **Water Improvements at Samuel P. Taylor SP.** The budget proposes \$1.7 million from Proposition 40 bond funds for working drawings and construction to replace the water storage system at the park.
- **Replace Lifeguard Tower at San Elijo SB.** The budget proposes \$418,000 from Proposition 12 bond funds for the preliminary plans and working drawings to construct a replacement lifeguard headquarters building in a new location at the beach.
- **Ruin Stabilization at Shasta SHP.** The budget proposes \$1.9 million from Proposition 40 bond funds for working drawings and construction to stabilize twelve gold rush period historic structures at the park.
- **Improvements at Topanga SP.** The budget proposes \$1.5 million from Proposition 40 bond funds for construction and equipment to improve public use facilities at Trippet Ranch, Hub Junction, and Los Lions Canyon.
- **Budget Development.** The budget proposes \$500,000 from Proposition 12 bond funds for development of future projects statewide.
- **Reimbursements.** The budget proposes \$3 million from reimbursement funds to allow the department to receive reimbursement funds for various projects statewide from other departments and entities.

Minor Capital Outlay. The budget includes the following minor capital outlay proposals:

- **Interpretative Exhibits.** The budget proposes \$500,000 from Proposition 12 bond funds for interpretive exhibits at Ford Ord Dunes State Park, Crystal Cove State Park, New Brighton State Beach, and Point Cabrillo Light Station.
- **Statewide Off-Highway Vehicle Projects.** The budget proposes \$2.2 million from the Off-Highway Vehicle Fund for sediment pond development at Prairie City SVRA, Tule Lake trail restoration, sediment basin redevelopment, and school house hill restoration at Hollister SVRA, hill slope restoration at Carnegie SVRA, and restoration barricades at Hungry Valley SVRA.
- **Recreational Trails.** The budget proposes \$250,000 from Proposition 12 bond funds for: Independence Trailhead construction at South Yuba River SP, Fern Creek Trail Bridge replacement at Mount Tamalpais SP, Redhill Loop construction at Sonoma Coast SB and Lighthouse Trail rehabilitation at Point Sur SHP.
- **Other Minor Projects.** The budget proposes \$475,000 from Proposition 12 bond funds for improvements to the Middle Pine Camp at D.L. Bliss SP.

Off-Highway Vehicle Acquisitions. The budget includes the following Off-Highway Vehicle (OHV) acquisitions:

- **Bakersfield OHV Park Project.** The budget includes \$5 million in OHV funds for acquisition of land in the Bakersfield area for a new State Vehicular Recreation Area (SVRA).
- **Budget Development.** The budget proposes \$600,000 in OHV funds for development of future projects and acquisitions.

Acquisitions. The budget includes the following proposed acquisitions:

- **Statewide Habitat Conservation Fund (HCF) Acquisitions.** The budget proposes \$1 million from the HCF to acquire habitat lands adjacent to state park lands to support the protection of wildlife habitat.
- **Federal Trust Fund Acquisitions.** The budget proposes \$5 million from federal trust funds to potentially acquire properties for the Anza-Borrego Desert SP, Redwood parks, Santa Cruz Mountains parks, and other statewide acquisitions. Funds will also be used to plan and construct projects to develop park acquisitions.
- **Opportunity Acquisitions.** The budget proposes \$1.5 million from Proposition 40 bond funds to acquire properties that are adjacent to, or substantially enclosed in, existing state park lands.

Staff Recommendation. No issues have been raised with these proposals. Staff recommends the Subcommittee approve as budgeted.

0540 Secretary for Resources

1. Energy Reorganization

Background. There has been significant discussion over the past several years regarding reorganization of the state's energy agencies. Concern has been expressed regarding the number of separate boards and commissions that currently implement the state's energy policy. Currently, there are approximately four primary state agencies that handle the state's energy-related activities:

- the California Public Utilities Commission (CPUC);
- the California Energy Commission (CEC);
- the Electricity Oversight Board (EOB); and
- the California Energy Resources Scheduling (CERS) Division of Department of Water Resources.

The above list does not include the California Consumer Power and Conservation Financing Authority (CPA), which is currently defunct and the California Independent System Operator (ISO), which is technically a not-for-profit corporation created by the state.

Governor's Budget. The Governor's budget does not currently include a proposal for reorganization of the state's energy agencies. However, the administration is continuing to work on a proposal to reorganize the state's energy agencies.

LAO Issues. The LAO opines that there may be some merit in reorganizing the state's energy agencies in light of some overlapping functions. However, they have raised several issues that they think the administration should address, including:

- **Potential Conflicts of Interest.** First, potential conflicts could occur if CEC used the CRA's bonding authority to finance a power plant, thereby having a financial interest in the power plant, while at the same time being responsible for permits related to its construction. Second, EOB's market monitoring duties before the Federal Energy Regulatory Commission (FERC) could be compromised if transferred to CEC since CEC could be considered a market participant due to its renewable program.
- **Uncertainty of California's Future Electricity Market Structure.** Since the energy crisis, the state has not resolved the question of what California's ultimate electricity market will look like. Accordingly, it may be premature to reorganize components of the state's electricity regulating agencies until legislative decisions are made as to what type of electricity market these agencies will regulate in the long term.
- **Recent Developments in the Electricity Market May Reduce Demand for State Financing.** In December 2004, the CPUC adopted long-term energy procurement plans for the state's major public utilities, which will allow the utilities to more easily enter into long-term contracts with electricity generators. The increased market certainty from this decision may improve the financing market for new power plants and reduce the need for the bond financing allowed under the CPA's statute.

Staff Recommendation. Staff recommends that the Subcommittee leave this issue open pending receipt of a reorganization plan from the administration and direct staff to evaluate all impacts of eliminating EOB and CPA.

2. Liquefied Natural Gas Proposals—Informational Issue

Background. There are currently four projects proposed for the construction and operation of liquefied natural gas (LNG) terminals in the Port of Long Beach and off the coast of Ventura, Santa Barbara, and San Diego counties. At the March 14 meeting of this Subcommittee, the Secretary of Resources was directed to provide additional information on the state's overall effort for reviewing the forthcoming LNG proposals. Staff has not yet received correspondence from the Resources Agency.

Debate on Regulatory Jurisdiction Continues. The California Public Utilities Commission (CPUC) has sued the federal government, asserting that the state has regulatory jurisdiction over the development of new LNG terminals in the state. The legal debate over the regulatory jurisdiction of this activity continues. Meanwhile, development of several LNG projects continues to move forward. It is unclear whether any state agency is taking a leadership role on the development of these projects, while debate continues related to regulatory jurisdiction of LNG.

Getting the Best Project for California. At this point, representatives from the current administration have indicated that the market can probably only support one LNG project in Southern California. However, there are several competing proposals moving forward and all employ different technologies. It is not clear that the state currently has a process in place that would allow for a comparative analysis of these projects to ensure that California gets the best project, with the least possible impact on the environment, and which meets the highest safety standards.

3. Electricity Transmission Line Agreement—Informational Issue

Background. The Administration has recently announced, in conjunction with three other states – Wyoming, Utah, and Nevada – plans to create a new electricity transmission line. According to a press statement released from the Governor's office, the "Frontier Line", as it has been named, will deliver "renewable and conventional energy resources from wind and clean coal." The total cost of this plan is estimated at \$3.3 billion.

Staff Comments. This project would have a foreseeable impact on energy usage in California. The administration should provide more information regarding:

- The potential cost burden to California ratepayers for this project;
- The project's alignment with current plans for energy usage, particularly California's Renewable Portfolio Standards (RPS); and
- The role of the CPUC and other agencies in developing and implementing this program, as well as the proposed timeframe.

4. Solar Homes Initiative—Informational Issue

Background. The “1 Million Solar Homes” initiative (SB 1, Murray and Campell) seeks to have 50% of all new homes powered by solar energy and one million solar roofs installed on residential and commercial buildings by 2018.

Staff Comments. This proposal, by the administration, is a sizable effort to promote solar energy. However, concerns have been raised regarding how the incentive program will be funded. The incentive program for solar roofs is central to the initiative. Considering the potential impact on ratepayers and the increased workload by the CEC and CPUC staff in implementing this program, the administration should be prepared to provide more details regarding how the plan will be implemented, the effects upon ratepayers’ utility bills, and whether the Renewable Resources Trust Fund will be used to finance the initiative.

3360 California Energy Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

Governor's Budget. The Governor's budget proposes \$317 million to support CEC in 2005-06. The proposed budget is approximately 17 percent less than estimated expenditures in the current year due to expenditure of a significant amount of accumulated renewable energy funding to help implement the renewable portfolio standard. The department does not receive any General Fund support.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Type of Expenditure				
Regulatory and Planning	\$27,650	\$25,731	-\$1,919	-6.9
Energy Resources Conservation	30,896	21,954	-8,942	-28.9
Research and Development	327,325	276,560	-50,765	-15.5
Administration	11,399	11,522	123	1.1
<i>less distributed administration</i>	<i>-11,399</i>	<i>-11,522</i>	<i>-123</i>	<i>0.0</i>
Loan Repayments	-6,481	-7,563	-1,082	0.0
Total	\$379,390	\$316,682	-62,708	-16.5
Funding Source				
General Fund	\$0	\$0	0	0.0
Special Funds	362,752	302,026	-60,726	-16.7
<i>Budget Act Total</i>	<i>362,752</i>	<i>302,026</i>	<i>-60,726</i>	<i>-16.7</i>
Federal Funds	9,108	8,911	-197	-2.2
Reimbursements	6,178	5,745	-433	-7.0
Renewable Energy Loan Loss Reserve Fund	1,353	0	-1,353	-100.0
Total	\$379,391	\$316,682	-62,709	-16.5

1. PIER Program

Background. The Public Interest Energy Research Development and Demonstration (PIER) program provides grant funds to public and private entities for research, development, and demonstration of electricity-related technologies. Recent legislation directed CEC to establish an independent review panel to evaluate the PIER program. The PIER program is scheduled to sunset in 2011.

Governor's Budget. The total proposed budget for the PIER program in 2005-06 is \$80.1 million, funded from the PIER Fund. The budget includes the following proposals to augment the PIER program in the budget year:

- **Staffing Increase Proposed.** The budget includes \$629,000 from the PIER fund to support seven new permanent positions to manage CEC's PIER program. These new positions will enhance CEC's management of new and existing PIER research projects. The proposal follows recommendations made by the legislatively mandated independent review panel, which, among other things, recommended that CEC improve its research and development efforts by increasing project management positions.
- **One-Time PIER Grant Fund Increase.** The budget also proposes a one-time augmentation of \$10 million to fund additional energy efficiency research and development projects in 2005-06, using funds from the proposed repayment of a special fund loan made to the General Fund in a previous year.

Long-Term Staffing Needs Addressed. The PIER program's independent review panel has found that, in order to improve the long-term effectiveness of this program there remain requirements for additional technical and management staff to adequately select and manage the large and growing project caseload of the program. (The number of projects being managed annually by PIER staff has increased significantly and is projected to double in the budget year.) In order to address this finding, the LAO recommends the enactment of legislation requiring CEC to develop a long-term staffing plan for the PIER program. This plan should (1) identify staffing needed to adequately manage the projected caseload through 2011 and (2) evaluate and recommend the appropriate mix of contract consultants and state employees, considering needed technical expertise and overall costs.

Staff Recommendation. Staff recommends that the Subcommittee adopt the budget change proposals for the PIER program and adopt placeholder trailer bill language that requires the commission to develop a long-term workload and staffing plan for the PIER program.

2. Augmentation of Analytical Resources

Governor's Budget. The Governor's budget includes the following budget change proposals to augment the commission's analytical resources by \$796,000 from the Energy Resources Program Account:

- **Energy Demand Forecasting and Analysis.** The budget proposes \$106,000 to support one new position to upgrade the commission's forecasting planning capabilities.
- **Transportation Energy Information and Analysis.** The budget proposes \$198,000 to support two new positions to analyze crude oil and petroleum product supply and inventory data.
- **Electricity Resource Procurement Analysis.** The budget proposes \$492,000 to support five new positions to analyze short- and long-term procurement and planning data to assist the CPUC's procurement process. Additional staff will also be used to work with the 25 load serving entities that are not regulated by CPUC (primarily municipal utilities) in evaluating their short- and long-term planning data.

Staff Recommendation. No issues have been raised with these proposals and staff recommends that the Subcommittee approve the budget proposals.

3. Public Interest Natural Gas Research Program

Background. The Legislature directed the CPUC to establish a surcharge on natural gas ratepayers to fund cost-effective energy efficiency and conservation activities and public interest research and development related to natural gas. In 2004, CPUC issued a decision that established the Public Interest Natural Gas Research Program and designated CEC as the statewide administrator of the program. This program will focus on research on and development of science and technologies that benefit natural gas end-users in all market sectors. The program will also focus on safe, efficient, and environmentally sound extraction, production, storage, transportation, and distribution of natural gas. This program is parallel to the department's PIER program which is funded by a surcharge on electricity ratepayers.

Governor's Budget. The Governor's budget includes \$535,000 to support 5 new positions to administer this new Public Interest Natural Gas Research Program. The CPUC has authorized \$15 million to be transferred to CEC to support this program in the budget year. This amount is scheduled to increase annually to \$24 million in 2009.

Staff Recommendation. No issues have been raised with this budget proposal and staff recommends that the Subcommittee approve the proposal.

4. Environmental Impacts of Coastal Power Plants— Informational Item

Background. Thermal power plants, which use once-through cooling in their processes, have been cited as sources of environmental degradation. These plants rely on ocean water for their cooling processes. During these processes, small and larger marine organisms can be pulled into the system and killed by the heat or be trapped against the screens within the intake. As these facilities age, the owners must submit plans for any proposed renovations. Renovation plans must receive approval from the CEC. The Committee has been advised that the CEC is completing a white paper on this topic, which it expects to release this summer.

Staff Comments. Thermal power plant projects are exempt from the permitting requirements of the Coastal Act. However, the CEC has adopted provisions to ensure that thermal power plant projects in the coastal zone are consistent with the objectives of the Coastal Act. Nevertheless, the CEC has not developed a comprehensive policy to encourage efficient water use and the most environmentally sound practices for these power plants. This is important as the Commission begins to evaluate upgrades or new plants to supplement the aging infrastructure on the coast. Furthermore, this lack of cohesive policy at the CEC is contrary to significant efforts by the administration to improve the ocean environment.

3860 Department of Water Resources

California Energy Resources Scheduling Division

Background. The department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

Governor's Budget. The Governor's budget proposes \$5.4 billion for electricity purchases and the administration of the CERS division of DWR. This is \$332 million, or 6 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Type of Expenditure				
Energy Purchases	\$5,624,128	\$5,292,360	-\$331,768	-5.9
Administration	47,120	47,381	261	0.6
Total	\$5,671,248	\$5,339,741	-331,507	-5.8

Status Report. The CERS division at DWR continues to provide for fiscal management of over \$5 billion in electricity contracts entered into on behalf of the IOUs during the energy crisis. The division's electricity portfolio is expected to stay at about the same level for the next four years. A large number of the contracts begin to expire in 2010. However, additional contracts will extend beyond that deadline. The department has indicated that efforts to assign the contracts financially to the IOUs has slowed, but the CPUC is currently re-evaluating how the contracts were allocated to the utilities for management. The division also indicates that it continues to employ numerous personal service contracts and consulting companies to accomplish its work.

8660 Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's budget proposes \$1.2 billion to support CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Type of Expenditure				
Regulation of Utilities	\$348,239	\$349,890	\$1,651	0.5
Universal Service Telephone Programs	881,347	852,035	-29,312	-3.3
Regulation of Transportation	14,647	15,412	765	5.2
Administration	17,868	16,341	-1,527	-8.5
<i>less distributed administration</i>	<i>-17,868</i>	<i>-16,341</i>	<i>1,527</i>	<i>0.0</i>
Total	\$1,244,233	\$1,217,337	-26,896	-2.2
Funding Source				
General Fund	\$0	\$0	0	0.0
Special Funds	1,230,449	1,203,430	-27,019	-2.2
<i>Budget Act Total</i>	<i>1,230,449</i>	<i>1,203,430</i>	<i>-27,019</i>	<i>-2.2</i>
Federal Funds	1,034	1,052	18	1.7
Reimbursements	12,751	12,855	104	0.8
Total	\$1,244,234	\$1,217,337	-26,897	-2.2

1. Office of Ratepayer Advocates

Background. The Office of Ratepayer Advocates (ORA) was created in 1985 to represent ratepayers in CPUC proceedings. In the mid-1990s, ORA evolved into a quasi-independent entity when the Legislature required that the ORA director receive independent confirmation by the Senate and required a separate line-item budget to be submitted. Until this year, however, the administration has not submitted a line-item budget separate from the primary CPUC budget.

Governor's Budget. The Governor's April 1 Finance Letter makes the following proposals concerning ORA:

- **Establishes New Account.** The letter proposes that ORA be funded through the Public Utilities Commission's Ratepayer Advocate Account through a transfer from the PUC's Utilities Reimbursement Account. This creates consistency in current law, which requires a separate line-item for the ORA.
- **Water Utility Rate Cases.** The letter proposes \$81,000 from the PUC Utilities Reimbursement Account to restore one position to ORA to review rates charged by regulated water companies as required by statute.

Concerns with Current Structure of ORA. Recently, there has been increasing concern that ORA is simply unable to fulfill its mandate if its budget is subject to review by the CPUC, and is treated as just another division within the CPUC. Moreover, the lack of dedicated staff at ORA, particularly among the attorneys, creates a situation in which ORA is unable to successfully represent ratepayers. For example, attorneys who share assignments at both ORA and in another divisions of the CPUC may be faced with conflicts of interest. If the budget is controlled by the Commissioners, and if staff is shared, it is not unreasonable to ask how the ORA can effectively represent ratepayers, whose interests may, at times, be contrary to the decisions rendered by the Commissioners.

Concerns with Funding Level of ORA. Concerns have also been raised that ORA's current staffing level is not sufficient to allow for successful representation of residential customers' interests before the commission. This has been complicated by the fact that many other state and federal jurisdictions are involved in matters that directly impact residential customers, requiring ORA to spend additional time monitoring proceedings outside of the commission's regular proceedings. Furthermore, ORA's staff has been reduced by more than half from the number of positions in the office at the time of deregulation in 1996, even though there has been no reduction in the need to have a strong residential consumer perspective at the commission.

Staff Recommendation. Staff recommends that the Subcommittee approve the Finance Letter proposals related to ORA and direct staff, the LAO, DOF, ORA, and CPUC to develop a proposal to provide ORA with additional autonomy over its budgetary and personnel resources and additional funding to augment the role of ORA at the commission.

2. Various Telecommunications Issues—Informational Item

Bypass Ability and Universal Service. Traditionally, services such as the telephone have been classified as telecommunications services by the Federal Communications Commission (FCC) and have, therefore, been subject to payments into state and federal universal service funds. However, the FCC has been proactive in classifying some new services, such as Voice Over Internet Protocol (VOIP), as information services. Those services classified as information services are exempt from payments into universal service funds.

- **Staff Comments.** The increase in new and existing customers, who choose to use new technologies that are exempt from universal service payments, represents a challenge to the sustainability of California's universal service programs. Though the CPUC has not

yet witnessed erosion in the customer base, they have noted that the regulated ratepayer base is no longer increasing. It is fair to assume that the base will soon begin a year-over-year decline.

Telecommunications Bill of Rights. In January, the Commission stayed its May 2004 decision which established the Telecommunications Bill of Rights. Between May 2004 and January 2005, a number of telecommunications providers requested extensions in complying with some or all of the consumer protections outlined in the document. There is concern that the Commission's recent action represents, not only a setback for consumer protections that were negotiated over several years, but, more importantly, a disregard for the process and eventual decision which created the Bill of Rights.

- **Staff Comments.** It is unclear how the Commission plans to proceed after the staying of the Bill of Rights. Staff is concerned that the Commission is, in a wholesale manner, tossing out years of work in this area for political reasons. Furthermore, there are ongoing issues related to consumer protection in the telecommunications industry that the Bill of Rights would have addressed. For example, staff understands that Verizon has moved its cancellation policy back to 15 days, from the 30 days it instituted after the Bill of Rights was passed. This represents a reversal of the consumer protections gained under the Bill of Rights.

California Teleconnect Fund Program. The Teleconnect Fund provides telecommunications subsidies to schools, libraries, public hospitals, and certain community-based organizations. In the Supplemental Report of the 2004 Budget Act, the Legislature directed the CPUC to provide a report on how the Teleconnect Program could be targeted to better meet the growing digital divide problem. That report was due to the Legislature on February 1, 2005.

- **Staff Comments.** The CPUC has advised the Legislature that this report is not yet complete, will be forthcoming in the next few weeks. The CPUC should update the Subcommittee on the report's findings and provide the anticipated completion date for the report.

3. Railroad Safety

Background. The Railroad Safety Branch of the Consumer Protection and Safety Division of the CPUC has safety oversight of heavy freight and passenger railroads. The commission conducts rail safety inspections, investigates rail accidents, approves all applications for new construction or modifications to existing highway/rail crossings, and develops new safety initiatives based on inspection and investigative activities.

A recent court case stated that the CPUC did not have regulatory jurisdiction over railroad operating practices. Therefore, in order to affect these practices, applications must be made to the Federal Railroad Administration which has regulatory jurisdiction over the operations of heavy freight and passenger railroads.

Governor's Budget. The budget includes funding for the following activities within the Railroad Safety Branch:

- **Heavy Rail Freight Safety.** \$3.5 million from railroad user fees.
- **Rail Crossing Safety.** \$2.5 million from the State Highway Account.
- **Light Rail Transit and Heavy Rail Passenger Safety.** \$2.4 million from the Public Transportation Account.

Railroad Grade Crossing Accidents Increasing. Information from the commission indicates that the rate of crossing accidents is increasing again after almost ten years of decline. In 2003, rail crossing accidents in California resulted in 111 deaths and 112 injuries. Rail crossing accidents resulted in more deaths than any other rail-related activity. The main factor impacting the increase in the rate of crossing accidents is the state's continued population growth, which results in a higher probability of person-to-railroad interaction.

Division Has New Focus. The Railroad Safety Branch recently went through a strategic planning effort to refocus its efforts on reducing the number of accidents and fatalities related to the railroads. The commission has established, as priorities, the following new goals:

- Develop a more strategic and proactive approach to identifying the adverse impacts of new construction located near rail corridors to resolve safety issues before the development occurs.
- Develop a systematic and detailed process for collection and analysis of data collected from near misses at rail crossings.
- Conduct investigations, to the extent possible, on all rail-related fatalities and apply the lessons learned to improving the commission's safety program.

Strategic Plan Identified Potential Staffing Needs. The Commission's recent strategic planning efforts have provided new information on what needs to be done to make the commission's rail safety programs more effective in reducing the number of lives lost in rail accidents. However, it is not clear that the commission has adequate staff to engage in the additional activities identified by the strategic plan.

Staff Recommendation. Staff recommends that the Subcommittee request that the Commission provide information on how it plans to fund activities to implement the strategic plan recently completed by the commission.

5. Budget Change Proposals

Governor's Budget. The Governor's budget includes the following budget change proposals to augment activities at the CPUC:

- **Household Goods Carrier Enforcement.** The budget proposes to shift \$521,000 from the Transportation Rate Fund to support 5.5 new positions to increase enforcement, consistent with recent legislation that addressed serious consumer protection issues dealing with household goods carriers. This proposal also requires trailer bill language to increase the maximum fee paid by the household goods carriers to enable CPUC to collect sufficient revenues to fully fund this program.

- **Utility Informal Complaint Resolution.** The budget proposes \$483,000 from the PUC Reimbursement Account to make eight limited-term positions, which process informal complaints from utility customers, permanent. The informal complaint resolution process is the primary means by which the commission identifies consumer fraud, marketing abuse and other illegal activities by utilities or entities posing as utilities. Many of these complaints concern activities targeted at non-English speakers, low-income persons, and senior citizens.
- **Facility Repairs.** The budget proposes that \$380,000 from various special funds be allocated to the Department of General Services to perform specific maintenance projects related to the CPUC's facility in San Francisco. These projects are all health and safety related.
- **Master-Meter Customer Complaints.** The budget proposes \$73,000 from the PUC Reimbursement Account to support one position to increase enforcement resources so that the commission can respond to complaints from customers at mobile-home parks that receive energy bills from master-meters. (About one-half of the state's mobile-home parks have a single, master-meter. The park owner is responsible for billing the mobile-home park tenants.)

Governor's April Finance Letter. The Governor's April 1 Finance letter includes the following proposed amendment to the budget:

- **Universal Lifeline Telephone Program Increase.** The letter proposes a one-time \$6 million increase in funding from the Universal Lifeline Telephone Service Trust Administrative Committee Fund to pay claims received in the current year. The Universal Lifeline Telephone Program provides reimbursements to telephone providers for providing discounted telephone service to low-income households. This funding is being redirected from the reserve balance in the fund. Efforts by the commission and the telephone companies to increase enrollment in this program has resulted in approximately 53,000 new customers in the current year and funding is not projected to be sufficient to cover all of the claims submitted.

Staff Recommendation. No issues have been raised with these budget proposals and staff recommends that the Subcommittee approve the proposals.

8665 California Consumer Power and Conservation Financing Authority

Background. The California Consumer Power and Conservation Financing Authority (California Power Authority, or CPA) was created by Chapter 10x, Statutes of 2001 (SB 6x, Burton), to assure a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. The CPA was also created to encourage energy efficiency, conservation, and the use of renewable resources. The CPA is authorized to issue up to \$5 billion in revenue bonds to finance these activities. Chapter 10x also directs that the operation of the authority sunset on January 1, 2007.

Governor's Budget. The Governor's budget provides zero funding for CPA in the budget year. The Governor vetoed money provided for continued operations in the current year and CPA operations effectively shut down in Fall of 2004. However, the statute establishing the CPA is still current law.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Type of Expenditure				
Energy Acquisition	\$10,311	\$0	-\$10,311	-100.0
Planning and Policy Development	166	0	-166	-100.0
Administration	120	0	-120	-100.0
<i>less distributed administration</i>	<i>-120</i>	<i>0</i>	<i>120</i>	<i>0.0</i>
Total	\$10,477	\$0	-\$10,477	-100.0
Funding Source				
General Fund	\$0	\$0	\$0	0.0
Special Funds	10,477	0	-\$10,477	-100.0
<i>Budget Act Total</i>	<i>10,477</i>	<i>0</i>	<i>-10,477</i>	<i>-100.0</i>
Federal Trust Fund	0	0	0	0.0
Reimbursements	0	0	0	0.0
			\$0	0.0
Total	\$10,477	\$0	-\$10,477	-100.0

Status Report. The CPA is currently not operating even though statute creating the authority continues to be current law. Staff had been apprised that administration of the authority's demand reduction program has been assumed by Pacific Gas and Electric under the supervision

of the Secretary of Business, Transportation and Housing, Sunne McPeak, who is a former member of the CPA.

8770 Electricity Oversight Board

Background. The Electricity Oversight Board (EOB) was created by Chapter 854, Statutes of 1996 (AB 1890, Brulte), which deregulated California's wholesale electricity industry. The board was created to oversee the California Independent System Operator (ISO), which manages the transmission grid serving most of California, and the Power Exchange (PX), which, for a time, was the marketplace through which all electricity in the state was bought and sold. The EOB was also given very broad authority over ensuring reliability of the state's supply of electricity.

Governor's Budget. The Governor's budget proposes \$3.9 million to support the EOB in 2005-06, which is approximately the same level of expenditures as in the current year. The department does not receive any General Fund support.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Type of Expenditure				
Administration	\$3,728	\$3,850	\$122	3.3
Total	\$3,728	\$3,850	122	3.3
Funding Source				
General Fund	\$0	\$0	0	0.0
Special Funds	3,728	3,850	122	3.3
<i>Budget Act Total</i>	<i>3,728</i>	<i>3,850</i>	<i>122</i>	<i>3.3</i>
Federal Trust Fund	0	0	0	0.0
Reimbursements	0	0	0	0.0
Total	\$3,728	\$3,850	122	3.3

Current Workload. The EOB reports that it is currently involved in pending litigation stemming from the energy crisis. In the last six months, the EOB has obtained \$2.86 billion in spot market refunds for electricity and gas, and is in negotiations for more. Currently, the EOB has 384 active cases and 41 cases on appeal. The Federal Energy Regulatory Commission (FERC) is a litigant in all of these cases. The EOB has also opened several market investigations regarding post-energy crisis behavior. Finally, the EOB is still involved in oversight of the Independent System Operator (ISO).

The EOB currently retains one Governor-appointed member and two Legislative members. With these appointments, the EOB does not have a quorum and the board has not met in well over a year.